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Issue: 10-07

February 19, 2010

- BC's inflation rate rises to 0.7% in January
- Retail sales inch ahead 0.1% in December; down 5.1% for 2009
- Manufacturing sales slide 2.3% in December; off 17.8% in 2009

Prices

• Consumer prices in British Columbia climbed 0.7% in January compared to the same month last year. This rise in the province's Consumer Price Index (CPI) marks a third straight year-over-year increase following a five month period in which the CPI had been falling steadily. January's increase was primarily the result of rising energy prices (+9.6%). Excluding energy prices, the CPI rose just 0.1%.

Food prices advanced slightly (+0.3%), with upward pressure on food prices coming from higher costs for restaurant meals (+1.7%). Grocery bills, however, were a little easier to digest, driven lower (-0.4%) by cheaper fruits (-2.9%) and vegetables (-11.4%).

Shelter costs in BC continued to ease (-2.4%) in January as a result of price cuts to natural gas (-8.2%) as well as lower homeowner insurance premiums (-12.9%), replacement (-8.0%) and mortgage interest costs. Renters felt the pinch once again with rents inching upward (+1.4%). Higher charges for telephone service (+2.7%) helped push household operations up 1.0%. Clothing prices, however, remained flat, while the cost of footwear declined (-1.4%).

Prices for transportation also contributed to the overall increase in inflation, led by a sharp rise in gasoline (+18.4%). Health & personal care (+2.5%) and recreation, education & reading materials (+0.9%) costs moved higher in January. Alcohol & tobacco products also cost consumers more (+1.9%).

Data Source: Statistics Canada

• Compared the same month last year, the national Consumer Price Index jumped 1.9% in January. A surge in transportation prices (+7.7%) exerted the strongest upward pressure while shelter costs eased (-1.1%). The largest year-over-year inflation rates were found in PEI (+4.0%), New Brunswick (+3.9%), Newfoundland & Labrador (+3.2%) and Nova Scotia (+3.1%), spurred on by soaring prices for gasoline and heating oil.

Data Source: Statistics Canada

The Economy

• Manufacturing sales in British Columbia fell for a second month, slipping 2.3% to \$2,690 million (*seasonally adjusted*) in December. The decline was primarily reflected in the wood (-5.7%) and primary metals (-15.2%) industries. Sales were down sharply in transportation equipment (-12.8%) while sales by paper (-0.4%) and food (-2.0%) producers also dipped. Only computer & electronics producers made appreciable gains during the month (+5.1%).

Nationally, manufacturing sales rose 1.6% to \$43,022 million in December. Dollar-for-dollar, Ontario was the largest contributor to the national total, registering a 2.3% increase.

Data Source: Statistics Canada

• Provincially, retail sales inched ahead just 0.1% to \$4,630 million (*seasonally adjusted*) in December. Just three out of eight retail sectors registered increased sales during the month with improved sales by gasoline stations (+4.0%) and new car dealerships (+2.3%) barely offsetting reduced activity at

Did you know...

A week ago, barely half (53%) of British Columbians admitted being excited for the Winter Olympics. This week, however, more than three-quarters (78%) said they were excited.

Data Source: Ipsos Canada

supermarkets (-1.6%) and pharmacies (-5.0%).

At the national level, retail sales rose 0.4% to \$35,299 million in December as Alberta (+1.8%) recorded its largest monthly gain since November 2007.

Data Source: BC Stats & Statistics Canada

- **Wholesale activity in British Columbia expanded 1.9% to \$4,171 (seasonally adjusted) million in December.** This increase coincided with strong gains in building supplies (+9.2%), home & personal care products (+7.1%) and other products (+6.9%) such as agricultural supplies, chemicals, recycled materials and paper products. However, sagging sales by wholesalers of food products (-4.1%) and motor vehicles (-6.3%) put a damper on total receipts.

Nationally, wholesale sales rose 0.7% to \$42,830 million with Alberta recording a 3.9% jump in sales.

Data Source: BC Stats & Statistics Canada

- **Total travel to Canada via BC rose 1.0% (seasonally adjusted) in December.** Arrivals from the United States were up 2.0% with both overnight (+2.3%) and same-day (+1.2%) visits increasing. Travel from overseas slid 2.2% as a result of fewer entries from Europe (-5.7%) and other regions including Oceania, North and South America and Africa (-4.6%). Asian entries, on the other hand rose 2.1%.

Data Source: BC Stats & Statistics Canada

2009 in Review

- **Manufacturing sales in BC fell for a third consecutive year, plunging 17.8% in 2009.** Waning sales by makers of wood products (-31.5%) put downward pressure on total sales. Paper product (-18.1%) and primary metal (-27.1%) producers also reported significant double-digit declines. Food manufacturers, however, posted their first annual increase (+4.9%) following back-to-back declines in 2007 and 2008. Since peaking in 2006, provincial shipments of manufactured goods have fallen 26.5% to their lowest point

since 1998.

Data Source: BC Stats & Statistics Canada

- **British Columbia's retailers saw sales drop 5.1% in 2009, the first annual decrease recorded since 1998.** Six out of eight retail sectors experienced a lacklustre year, but none so much as the automotive sector (-14.1%), the result of slower sales at gasoline stations (-21.4%) and new car dealerships (-10.8%). Only food & beverage stores (+2.1%) and general merchandisers (+1.2%) reported increased sales during the year.

Data Source: BC Stats & Statistics Canada

- **On an annual basis, British Columbia's wholesale sales tumbled 8.1% in 2009, marking a second straight year of declining sales.** Wholesalers of food products (+7.0%) and pharmaceuticals (+17.9%) enjoyed significant gains in 2009. However, sales of motor vehicles (-20.9%), building supplies (-13.1%) and other products (-15.4%) were down sharply from the previous year.

Data Source: BC Stats & Statistics Canada

- **Visitor entries to Canada via British Columbia fell 6.4% in 2009, the fifth decline in as many years.** The number of travellers from the US continued to slow, dropping another 4.0% during the year as a result of a reduction in the volume of same-day (-2.7%) and overnight (-4.7%) entries. Visitor entries from south of the border have fallen in every year over the past decade. Since 2000, US entries have plummeted 38.7% eroding all of the growth experienced during the 1990s.

Fewer travellers from countries such as the UK (-12.9%), Japan (-27.3%) and Australia (-15.3%) drove total visits from overseas regions down sharply (-13.2%) in 2009.

Data Source: BC Stats & Statistics Canada

Infoline Issue: 10-07
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Capital Investment Accompanies High Dollar

Over the last several years, the Canadian dollar has undergone substantial fluctuation, which has caused a great deal of concern for Canadian exporters. After slumping below the 63 cent level in 2002, the loonie climbed to par with the US greenback in the fall of 2007, the first time that had happened in 30 years. With the onset of the global financial crisis in 2008, the Canadian dollar plunged to below 80 cents US as investors turned toward the historically safe haven of American currency. However, with the relatively stronger economic performance in Canada, combined with US monetary policy that has boosted the supply of money (which has the effect of devaluing the currency) and continued strength in commodity prices, the loonie has once again climbed up to the 95 cent range.

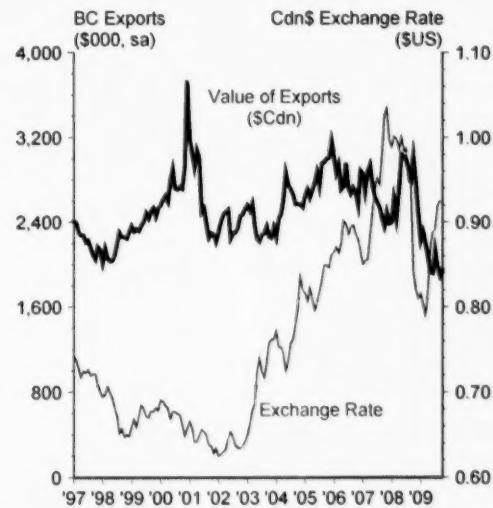
The Canadian dollar has flirted with par with its US counterpart several times in the last few years



Source: Statistics Canada

The sharp rise in the Canadian dollar poses a challenge for Canadian exporters. Given that the United States continues to be the primary destination for exports of goods and services, Canadian exporters are vulnerable to changes in the value of the dollar. This is because goods and services priced in Canadian dollars will be more expensive to American buyers, which could result in a loss of business to another, less expensive producer. Alternatively, goods and services priced in US dollars will yield less revenue for Canadian producers once converted to Canadian currency.

The exchange rate is only one factor affecting the value of BC's exports



Source: Statistics Canada

While the exchange rate is important, it is only one of the factors that affect the volume of exports. This is illustrated in the chart above, which compares the value of BC's commodity exports (seasonally adjusted) to the Canada/US dollar exchange rate over time. While there are some periods where exports fell as the dollar climbed, there are also periods when the opposite was true. One of the reasons for this is that the Canadian dollar tends to follow the movement of commodity prices. When commodities such as energy products and metals are priced high, the dollar tends to rise. Since these goods are major exports from BC, it isn't entirely unusual to see the value of BC's exports go up at the same time as the dollar appreciates.

However, for producers of other goods, such as lumber products or machinery and equipment, and for exporters of services, a higher dollar usually coincides with a drop in revenues (and even for exporters of metals and energy products, since most of their costs are likely denominated in Canadian dollars, net revenues could fall).

One way to counteract a decline in revenues is to reduce costs and one way to achieve a cost reduction is to improve productivity. Fortunately, one of the consequences of a higher domestic currency is that imports become less expensive. Given that much of the productivity-improving machinery and equipment is manufactured in the United States, the appreciating dollar offers an opportunity for Canadian businesses to make capital improvements at a reduced expense.

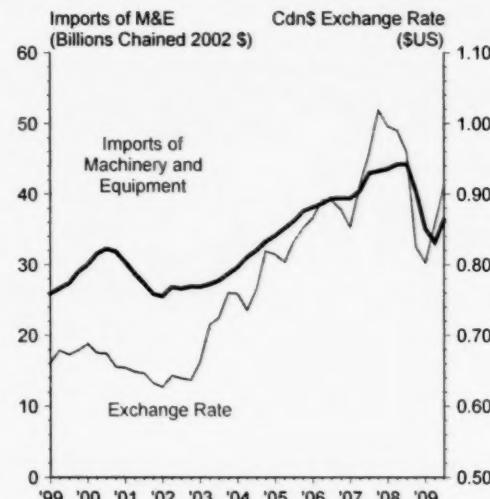
It appears that Canadian businesses have been doing just that as their investment in machinery and equipment has closely followed the rise and fall of the Canadian dollar over the last decade. When the dollar slumped in the fourth quarter of 2008, investment in machinery and equipment also declined and now that the dollar is again climbing, so too is investment in these goods.

Over the last decade, investment in machinery and equipment by Canadian businesses has been in synch with the exchange rate



Source: Statistics Canada

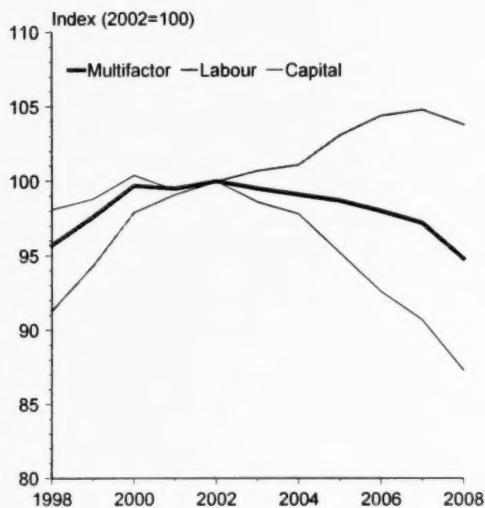
Imports of machinery and equipment have risen and fallen in synch with the exchange rate as well



Source: Statistics Canada

While not all the machinery and equipment upgrades will be imports from the United States, import data show that the value of imports has also tracked well with the rise and fall of the exchange rate, which seems to indicate that Canadian businesses are indeed taking advantage of lower prices resulting from the higher-valued Canadian dollar to purchase American-made machinery and equipment. Whether this capital investment has resulted in improved productivity is less certain. In fact, overall Canadian productivity has actually declined in the last few years¹.

Canadian productivity has shown little growth over the last decade and has even declined in recent years



Source: Statistics Canada

Nevertheless, if Canadian exporters are to thrive in a high dollar environment, they will need to develop a competitive edge and lowering costs through efficiency improvements is one way to achieve that.

¹ For a discussion on productivity in British Columbia, refer to the February 2010 issue of Business Indicators.



BC at a glance . . .

POPULATION (thousands)		Jul1/2009	% change on one year ago
BC	4,455.2	1.6	
Canada	33,739.9	1.2	
GDP and INCOME (Revised Nov 9)			
(BC - at market prices)		2008	% change on one year ago
Gross Domestic Product (GDP) (\$ millions)	197,931	3.3	
GDP (\$ 2002 millions)	164,520	0.0	
GDP (\$ 2002 per Capita) (reflects revised pop)	37,529	-1.7	
Personal Disposable Income (\$ 2002 per Capita)	25,931	3.2	
TRADE (\$ millions, seasonally adjusted)			% change on prev. month
Manufacturing Shipments - Dec 2009	2,690	-2.3	
Merchandise Exports - Dec 2009	2,130	4.6	
Retail Sales - Dec 2009	4,630	0.1	
CONSUMER PRICE INDEX			12-month avg % change
(all items - Jan 2010)		one year ago	
BC	0.7	-0.1	
Vancouver	1.0	0.1	
Victoria	0.5	0.0	
Canada	1.9	0.4	
LABOUR FORCE (thousands)			% change on prev. month
(seasonally adjusted)		Jan 2010	
Labour Force - BC	2,481	0.3	
Employed - BC	2,281	0.5	
Unemployed - BC	201	-1.7	
		Dec 2009	
Unemployment Rate - BC (percent)	8.1	8.3	
Unemployment Rate - Canada (percent)	8.3	8.4	
INTEREST RATES (percent)		Feb 17/2010	Feb 18/2009
Prime Business Rate	2.25	3.00	
Conventional Mortgages - 1 year	3.60	5.00	
- 5 year	5.39	5.79	
US-CANADA EXCHANGE RATE		Feb 17/2010	Feb 18/2009
(avg. noon spot rate)	Cdn \$ per US \$	1.0455	1.2596
(closing rate)	US \$ per Cdn \$	0.9568	0.7948
AVERAGE WEEKLY WAGE RATE			% change on one year ago
(industrial aggregate - dollars)		Jan 2010	
BC	812.32	1.6	
Canada	814.06	1.2	
SOURCES:			
Population, Gross Domestic Product, Trade,		Statistics	
Prices, Labour Force, Wage Rate		}	Canada
Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics			
For latest Weekly Financial Statistics see www.bankofcanada.ca			

British Columbia Wage and Salary Survey
In 2009, the first-ever Wage and Salary Survey was completed by the BC Government. This survey provides up-to-date wage and salary information on part-time and full-time wages, hours of work, hiring difficulties, and vacancies for 121 of the province's most common occupations. In B.C.'s three largest economic regions (Vancouver Island/Coast, Mainland/Southwest, and Thompson/Okanagan), the top 100 occupations were targeted, and in the five remaining regions (Kootenay, Cariboo, North Coast, Nechako, and Northeast), the top 35 occupations were targeted.

www.bcstats.gov.bc.ca/data/lss/labour/wage/

Historical Census Profiles

We have added 1986 Census Profiles to our site. This series of profiles is for development regions, regional districts, municipalities, and unincorporated areas. Recently we added detailed profiles for development regions, regional districts, municipalities, unincorporated areas and Indian reserves from the 1996 and 1991 censuses. Registration is required for access.

www.bcstats.gov.bc.ca/census.asp

Aboriginal Peoples Profiles - BC

Province-level profiles have been added to this series. These profiles provide comparisons of the socio-economic conditions of the Aboriginal populations as well as profiles of Aboriginal groups such as First Nations, Métis, and Status Indians using data from the 2006 Census.

www.bcstats.gov.bc.ca/data/cen01/abor/ap_main.asp

Released this week by BC Stats

- Consumer Price Index, January 2010

Next week

- Business Indicators, February 2010
- Current Statistics, February 2010
- Quarterly Regional Statistics, 4th Quarter 2009